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S.C. PUBLIC SERVICE COMMISSION

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TESTIMONY OF JACQUELINE R. CHERRY

FOR

THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

S.C. PUBLIC SERVICE COMMISSION

DOCKET NO. 95-006-E

IN RE: DUKE POWER COMPANY

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NOV 07 1995  
UTILITIES DIVISION

Q. WOULD YOU PLEASE STATE FOR THE RECORD, YOUR NAME,  
ADDRESS AND OCCUPATION?

A. My name is Jacqueline R. Cherry. My business  
address is 111 Doctors Circle, Columbia, South  
Carolina. I am employed by the Public Service  
Commission of South Carolina, Accounting  
Department, as an utilities accountant.

Q. WOULD YOU PLEASE STATE YOUR EDUCATIONAL BACKGROUND  
AND YOUR BUSINESS EXPERIENCE?

A. I received a B.S. Degree in Business  
Administration with a major in Accounting from  
Johnson C. Smith University in 1976. I was  
employed by this Commission in February 1979, and  
have participated in cases involving gas,  
electric, telephone, water and wastewater  
utilities.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS  
PROCEEDING?

1 A. The purpose of my testimony is to summarize the  
2 results of the Accounting Staff's examination of  
3 Duke Power Company's Fuel Adjustment Clause  
4 operation for the period June 1995 through  
5 November 1995. The findings of the examination are  
6 contained in the Accounting Department's section  
7 of the Commission Staff Report, prepared for this  
8 proceeding.

9 Q. WHAT WAS THE SCOPE OF THE EXAMINATION?

10 A. The Accounting Staff traced the fuel information,  
11 as filed in the Company's required monthly filing,  
12 to the Company's books and records. The  
13 examination covered the period April 1995 through  
14 September 1995. The purpose of the examination  
15 was to determine if Duke Power Company had  
16 computed and applied the monthly Fuel Adjustment  
17 Clause in accordance with the approved clause. To  
18 accomplish this, Staff examined the components  
19 surrounding the operation of the clause.

20 Q. WHAT WERE THE STEPS THAT THE STAFF EMPLOYED WITHIN  
21 THE SCOPE OF THE EXAMINATION?

22 A. The examination consisted of the following:  
23 1. An Analysis of Account # 151 - Fuel Stock  
24 2. Verification of Charges to Nuclear Fuel Expense  
25 -- Account # 518

- 1 3. An Analysis of Purchased Power and Interchange
- 2 4. Verification of KWH Sales
- 3 5. A Comparison of Coal Costs
- 4 6. An Analysis of Spot Coal Purchasing Procedures
- 5 7. Review of Duke Power Company's Coal Contract
- 6 Buy-Out
- 7 8. Recomputation of Fuel Cost Adjustment Factor
- 8 and Verification of Deferred Fuel Costs
- 9 9. Recomputation of True-up for
- 10 (Over)Under-Recovered Fuel Costs

11 Q. MRS. CHERRY, WOULD YOU PLEASE EXPLAIN THE REVIEW  
12 OF DUKE POWER COMPANY'S COAL CONTRACT BUY-OUT?

13 A. On August 9, 1995, Duke Power Company requested a  
14 Commission accounting order which would give Duke  
15 Power Company authorization to defer costs the  
16 Company anticipated incurring in association with  
17 one of its existing coal contracts and to amortize  
18 such costs to the cost of fuel burned. The costs,  
19 which total \$23,024,789.75, are coal contract  
20 buy-out costs which Duke Power Company and one of  
21 its contract coal suppliers, Westmoreland Coal  
22 Sales Company, negotiated to buy out Duke Power  
23 Company's obligation to purchase coal during the  
24 remaining period of the existing contract--August  
25 1995 through July 1996. Duke Power Company felt

1       that they could purchase replacement coal at  
2       prices considerably lower than the prices  
3       pertaining to the existing Westmoreland contract.  
4       Duke Power Company stated, in its request letter  
5       to the Commission, that Duke Power was confident  
6       the cost of replacement coal plus the proposed  
7       deferral (which is the cost of the contract  
8       buy-out) when compared to the cost which would  
9       have been incurred under the existing contract  
10      would provide a substantial net benefit to  
11      customers. The Company, therefore, requested  
12      authorization to defer the buy-out payment in  
13      Account No. 186 - Miscellaneous Deferred Debits,  
14      and to amortize the buy-out cost to Account No.  
15      501 - Fossil Fuel for at least a twelve-month  
16      period beginning in September 1995. A  
17      twelve-month time period was chosen, as stated in  
18      the Company's request letter, to cover the same  
19      time period (twelve months remained on the  
20      existing contract) that savings on replacement  
21      coal purchases would likely be realized. Also,  
22      September 1995 begins the amortization period  
23      because the Company noted that any purchases of  
24      replacement coal in August 1995 would not likely  
25      impact the cost of fuel burned until September

1 1995.

2 On August 22, 1995, the Commission approved Duke  
3 Pover Company's request, for accounting purposes  
4 only, to reflect the buy-out costs in the  
5 aforementioned accounts with a twelve-month  
6 amortization period. The Commission noted that  
7 amortization will only be allowed to the extent  
8 that savings on replacement coal purchases are  
9 realized. The Commission also noted that the  
10 Commission reserves the right to review the  
11 economics of the Company's transaction in the  
12 Company's fuel clause adjustment proceedings.  
13 During this audit review period of the Company's  
14 fuel adjustment clause, April 1995 through  
15 September 1995, Staff reviewed the savings  
16 associated with the replacement coal purchases  
17 plus the amortization of the contract buy-out  
18 versus the Company's original coal contract costs.  
19 The replacement coal purchases, which were  
20 purchased in August and September 1995, consisted  
21 of spot market coal and coal purchased from  
22 another coal contract supplier. Staff reviewed  
23 the costs of the replacement coal purchases,  
24 compared those costs to the original contract  
25 costs and then reduced the net result of the

1       aforementioned costs by the monthly amortization  
2       of the contract buy-out, which is \$1,918,732 per  
3       month, for the months of August and September  
4       1995. Staff notes that only one month's actual  
5       amortization is reflected per books as of  
6       September 1995. However, for calculation purposes  
7       to determine the cumulative net savings (net of  
8       the buy-out amortization) associated with  
9       replacement coal purchased in August and September  
10      1995, Staff included the monthly amortization that  
11      will be reflected per books in October 1995.  
12      Therefore, the cumulative net savings as of  
13      September 30, 1995 (including the monthly  
14      amortization for October 1995 which would be  
15      applicable to September 1995 purchases) totals  
16      \$3.7 million.

17      Q. WITH REGARD TO THE TRUE-UP OF  
18      (OVER)UNDER-RECOVERED FUEL COSTS, WOULD YOU PLEASE  
19      ELABORATE ON STAFF'S COMPUTATION?

20      A. Staff analyzed the cumulative over-recovery of  
21      fuel costs that the Company had incurred for the  
22      period April 1995 through September 1995 of  
23      \$624,817. Staff added the projected over-recovery  
24      for October 1995 of \$1,054,273 and the projected  
25      under-recovery for November 1995 of \$837,151 to

1 arrive at an cumulative over-recovery of \$841,939.  
2 As stated in Duke Power Company's Adjustment for  
3 Fuel Costs, fuel costs will be included in base  
4 rates to the extent determined reasonable by the  
5 Commission for the succeeding six (6) months or  
6 shorter period. Accordingly, the Commission should  
7 consider the over-recovery of \$841,939 along with  
8 the anticipated fuel costs for the period December  
9 1, 1995 to May 31, 1996 for the purpose of  
10 determining the base costs for fuel in base rates  
11 effective December 1, 1995. This over-recovery  
12 figure of \$841,939 was furnished to the  
13 Commission's Utilities Department.

14 Q. MRS. CHERRY, WOULD YOU PLEASE DESCRIBE THE  
15 REMAINING STAFF EXHIBITS?

16 A. Staff prepared exhibits from Duke Power Company's  
17 books and records reflecting fuel costs during the  
18 review period.

19 Specifically, these exhibits are as follows:

20 Exhibit A - Coal Cost Statistics

21 Exhibit B - Received Coal-Cost Per Ton Comparison

22 Exhibit C - Detail of Nuclear Cost

23 Exhibit D - Total Burned Cost (Fossil and Nuclear)

24 Exhibit E - Cost of Fuel

25 Exhibit F - Factor Computation

1           Exhibit G - S.C. Retail Comparison of Fuel  
2                               Revenues and Expenses

3       Q.   MRS. CHERRY, WHAT WERE THE RESULTS OF THE  
4           ACCOUNTING DEPARTMENT'S EXAMINATION?

5       A.   Based on the Accounting Staff's examination of  
6           Duke Power Company's books and records, and the  
7           utilization of the fuel cost-recovery mechanism as  
8           directed by the Commission, the Accounting  
9           Department is of the opinion that the Company has  
10          complied with the directives (per the Fuel  
11          Adjustment Clause) of the Commission.

12      Q.   MRS. CHERRY, DOES THIS CONCLUDE YOUR TESTIMONY?

13      A.   Yes, it does.  
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